

Fiscal Note

Fiscal Services Division



HF 629 – Inheritance Tax Exemption (LSB 1880HZ)

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Fiscal Note Version – New

Description

House File 629 creates an inheritance tax exemption for the first \$2.0 million of inherited value and applies a single tax rate of 10.0% on any inherited value in excess of \$2.0 million. This Bill also extends to step grandchildren and step great-grandchildren the current full inheritance tax exemption available for spouses, stepchildren, and lineal ascendants and descendants. The changes are effective with deaths occurring on or after July 1, 2013.

Background

Current Iowa law exempts a spouse, or stepchild, as well as all linear descendants and ascendants (parents and grandparents, children and grandchildren) of the decedent from the Iowa inheritance tax. Other related individuals, such as brothers, sisters, nieces, or nephews, may have the inheritance taxed at 5.0% to 10.0% of its net value, depending on the value of the inheritance and the relationship to the decedent. For unrelated persons, the tax rate is 10.0% to 15.0%. For-profit corporations are taxed at 15.0% of the inheritance.

Assumptions

The Department of Revenue reviewed 112 recent inheritance tax returns (approximately 5.0% of annual inheritance tax returns). The department re-estimated the inheritance tax that would be due given the value of the estate and the relationship of the beneficiaries to the decedent, using the new exemption provisions contained in the bill. This new estimate was then compared to the inheritance tax that was due under current law. The department analysis found that 107 of the 112 inheritance situations would owe no tax under the provisions of this Bill and the percent reduction in inheritance tax owed across the 112 returns was 89.4%.

This 89.4% reduction was then applied to the department's projection for inheritance tax receipts, beginning with the fourth quarter of FY 2014.

Fiscal Impact

The additional inheritance tax exemptions created in this Bill are projected to reduce net General Fund revenue by the following amounts:

- FY 2014 = \$ -21.3 million
- FY 2015 = \$ -91.6 million
- FY 2016 = \$ -94.9 million
- FY 2017 = \$ -101.4 million

The exemption will continue to have a General Fund impact in future fiscal years, with the impact projected to be similar to FY 2017.

The Department of Revenue estimates that the exemptions will result in a 95.0% reduction in the number of inheritance tax returns filed with the state, allowing the reallocation of one FTE position to other tax review duties.

Source

Department of Revenue

/s/ Holly M. Lyons

April 18, 2013

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
